

CAN CO-OPERATIVES COMPETE? - THE ROLE OF COMMON OWNERSHIP
ORGANISATIONS IN THE ECONOMY

Paper presented to the Conference on Co-operation
Melbourne, June 22, 1984

by Robert A. Carter

Advisor to the Minister of Housing, Victoria, and
Senior Lecturer in Economics at the University of Melbourne.

1. Introduction

There is nothing in the theory of economics or in the principle of co-operation that would deny co-operatives a significant role in an efficient market capitalist economy. In fact, their potential contribution is positive at both the macro and micro level. Co-operation can lead to higher productivity, improved industrial relations and can contribute to consensus based macro-economic policies. It is consistent with the achievement of the goals of democracy in the work place and is a participatory form of social organisation. Why then have co-operatives failed to develop as a far more important form of economic organisation than they currently are?

The answers to this question have far more to do with cultural traditions and attitudes than with any inherent economic superiority of the private corporate form of organisation over the co-operative form.

2. Definitions

It is important to recognise the diversity of the co-operative movement when talking about its economic viability. The major forms of co-ops are:

a) Consumer Co-operatives: in which the people co-operate to provide services - such as housing or retail goods.

- b) Producer Co-operatives: in which people's labour resources are pooled to produce and trade in goods or services in the market place. The goal is commercial supply to earn income rather than service provision on a group basis. This group includes agricultural and industrial co-operatives.
- c) Financial Co-operatives: in which people pool financial resources in order to match excess demands and supplies for money within a co-operative and community based framework.

All co-operatives, if they are indeed co-operatives, are united by their observance of the international principles of co-operation. However, even so, there is considerable diversity in structure and functions within the movement. On the economic viability issue, the co-operative I shall concentrate on is the producer co-op because the capacity to compete in the market place represents the most difficult of all tests. Many of the problems and principles referred to are equally relevant to consumer co-operatives and financial co-operatives - particularly on the question of management efficiency, education and relationships with government.

The working definition of the co-operative discussed is thus a producer co-operative with common ownership. In particular, the two principles of co-operation that distinguish this body from the conventional corporate form are:

- (i) The return of share holders from capital is limited, not just the liability. Surpluses from profitable trading are distributed in ways other than dividends paid on shares. For example, in an industrial or workers' co-op they are distributed in proportion to the value of work contributed; in a consumers' buying co-operative in proportion to the value of goods purchased; in an agricultural marketing co-operative in proportion to the value of farm produce supplied; in a housing co-operative in the form of reduced rents or improved standard of housing; in a credit co-operative in the form of cheaper borrowings or higher interest on savings; and so on.

Naturally, not all of a surplus needs to be or should be distributed. Some will be retained and reinvested.

(ii) The second principle that distinguishes the co-op as a form of economic organisation is the rule that voting is equal instead of in proportion to shares held.

The ultimate control of co-ops rests with its members - even if day-to-day management is left to an executive. This 'equal voting rights' clause is markedly different to the absentee shareholding principle of many private investments. Control is exerted directly by the participants in a co-op and the only incentive to invest is one if one is to share in the benefits of the co-op through desired participation.

Can Co-ops Compete?

Can this form of organisation cope in a competitive environment? Can they compete with slickly organised large corporations where ownership and management are typically divorced and hierarchical? The consumer is most definitely "yes". There is absolutely nothing in the principles of co-operation that suggest that efficiency and the generation of surpluses are undesirable goals. In fact, quite the contrary. Around the world there are numerous examples of successful producer co-operatives - non more spectacular than in Mondragon in the Basque region of Spain.

British economists ¹ have subjected this experiment to detailed comparative performance tests and concluded that industrial co-ops can be significantly more efficient than comparable companies - particularly where co-operatives provide support to co-operatives engaged in linked activities. Because workers control their own destiny, motivation levels are high and supervision loads are consequently low. Similarly, because adversary relationships between labour and capital are minimised, industrial relations are harmonious.

1. Henk Thomas and Chris Logan, Mondragon: An Economic Analysis London: George Allen and Unwin, 1982.

Democracy and worker control need not be in conflict with efficiency. In fact, they are seen to enhance it in Mondragon. There is accountability, democracy and a greater social awareness associated with the production process.

Some of the facts about Mondragon are indeed impressive:

- * The co-operative networks is the largest producer of machine tools and household consumer durables in Spain and a major producer of dozens of other finished products and components ranging from auto parts to bathroom fixtures.

- * The worker co-operative network averages 12% higher productivity than the comparable private sector in Spain.

- * There have been no business failures since 1956 among the more than 100 industrial firms created.

- * In the recent depression in Spain, there were only two months with unemployment insurance being drawn by worker co-operatives. During one month 153 and in another month 150 drew benefits. With a work force of over 22,000 this represents an unemployment rate of less than $\frac{1}{2}$ of 1 percent.

- * There has been only one strike since 1956 in the workers co-operative movement. At the same time, co-operators have been very supportive of the development of the union movement in the Basque provinces. A result of the strike was a set of improvements in how all Mondragon co-ops deal with labour management issues.

- * Absenteeism has been significantly lower in the Basque worker co-operatives than in the rest of the Spanish private sector.

Another feature of Mondragon that I believe is most significant is the inter-linkage and support between co-operatives. There are not only individual producer co-operatives, but a number of key support co-ops - a savings and development bank, technical schools to train workers, supermarkets and a co-operative social security system. Significantly there is also a research and development institute, dedicated to ensuring that the system is on the leading edge of current technology.

The very things that hold co-ops back are tackled in this system - education and training support for people working in co-operative structures; up-to-date technology development; and access to development capital. Education, finance and efficient production methods are as critical to the long term survival of co-ops as to any producer group.

What Mondragon shows however, is that if co-ops can match it with private companies in these respects, then their superiority in other respects will show through.

The Revival in Co-operation

Around the world there is currently a revival in interest in the principles and practice of co-operation - particularly as far as industrial and housing co-ops are concerned. In Australia, the early beginnings of this revival in interest are evident and this conference represents something of a landmark in the process.

At the micro level, the arguments are the same as anywhere - a potentially efficient form of work organisation that has the added advantages of democratic control. At the macro level, there are obvious advantages in co-operatives from an industrial relations point of view in providing an effective mechanism that can involve the union movement, as overseas experience has shown. The co-operative form of organisation has obvious advantages in endeavours to achieve a consensus approach to economic management through vehicles such as the prices and incomes accord and the concept of the social wage. It is also consistent with the goals expressed at both national and state government level of increased work place democracy and introducing a more co-operative and less confrontationist approach to industrial relations. Most significantly, co-operatives also have great potential in the context of active government industrial policies.

Without delving into the complexities of structural change, it is clear that the capacity of the private market alone to steer the country through international competition and to restructure economic activity is limited.

Co-operative industrial policies between government and producers are the hallmarks of those countries that are winning international trade in new industries and are most successfully restructuring their old industries. A major aspect of this recognition of the need for active industry policies is the recognition of financing problems. After a lengthy recession and with reduced profits caused by international competition, the capacity of industry to self-finance restructuring is limited and there is a circularity evident in declining sectors.

Industry banking and venture capital provision are necessary and joint ventures with government have become both feasible and desirable. Into this context, government support of the marketing, export promotion, technical and financial needs of co-operatives fits extremely well. All one has to do is recognise this simple link. There is a need to integrate our fledgling co-operative programs with the development of industry policies and business support programs. The history of the agricultural sector is relevant here, as it is one of active government support for industry development and a key role for co-operatives - particularly in the development phase.

Limitations Facing the Movement

So far, this paper has painted a very optimistic picture of the future - and there is reason for optimism. Equally, however, the constraints must be recognised. The main one is the lack of a sufficiently widespread tradition of co-operation in our community - in contrast to a country like Sweden for example. Co-operation is more of a cultural tradition, an attitude and a form of community organisation, than it is an economic motivator. For these reasons, education becomes a key factor. Informing people about the principles and practices of co-operation and the opportunities it provides is a critical step.

There are also economic constraints. Co-operatives have an image of being "Mickey Mouse". "They can't be real business. They are just another form of government job creation scheme - propped up".

Coupled with these attitudes are the image of co-ops as suffering from amateur management, an inadequate capital base and poor knowledge of finance and marketing. To a significant extent these latter criticisms have validity. There has been insufficient attention paid to the harder questions of financial backing, taxation arrangements and management and technical education. As far as individual investors are concerned, this image of co-ops acts as a deterrent. It is also easier for saving to hire labour than it is to organise and educate labour into the successful hiring of capital.

Support networks are critical if co-operatives are to emerge from their current residual status and become a major third sector. There is inevitably a key role for government here - particularly through finance, industry support and education policies. Because of the unique capital raising problems of co-operatives, a co-operative bank or some other form of shared financing facility is likely to be critical. Venture capital must be made available to co-operative ventures in a way that recognises the particular capital structures of co-ops.

In addition co-ops need:

- | | |
|------------------------|-------------------------------------|
| . financial expertise; | . management expertise; |
| . planning capacity; | . technological information; |
| . marketing expertise; | . co-op organisation expertise; and |
| . legal expertise. | |

These resources must be made available through a co-operative development agency and/or secondary co-operative network if they are to be provided in a way that recognises the unique characteristics of co-ops. Locally, activity is already blossoming in these areas. We have an active Federation of Co-operatives and many successful credit co-ops. There is an emerging program of worker co-operatives sponsored by the Ministry of Employment and Training. This is linked to a program of education on business planning for co-operatives at the Preston T.A.F.E. The Ministry of Housing is currently developing a proposal for the introduction of common ownership rental housing co-operatives along Canadian lines. Activity in all of these areas is being undertaken with renewed vigor. But the resurgence of co-operation is at an early and delicate stage.

It needs and deserves government support because of the socially and economically beneficial nature of co-operative organisations.

One area of government support worthy of separate mention is taxation. If it is agreed that co-ops provide positive social externalities not associated with traditional corporate forms, serious consideration should be given to tax reforms such as deferred tax on interest from investments in co-ops and tax deductibility of donations to co-ops.

Legislative reform will also be needed to allow for flexibility (such as the issuing of bonus shares to encourage reinvestment) while firmly reinforcing the principles of co-operation (one share one vote etc.).

There is nothing in the nature of co-ops as economic organisations to prevent them competing commercially as long as the problem of access to capital is overcome. It is also important to develop forms of co-operatives that involve trade unions and existing community organisations rather than appearing to threaten them. The potential of co-operatives is enormous in both producer and consumer areas. What we should be concentrating on is ways to elevate community and government consciousness of this potential. This is the Cain Government's objective in sponsoring this conference and in establishing M.A.C.C. (The Ministerial Advisory Committee on Co-operation).